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RUEHBK/AMEMBASSY BANGKOK 3354  
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RUEHUL/AMEMBASSY SEOUL 7982  
RUEHGP/AMEMBASSY SINGAPORE 6540  
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RUEHJA/AMEMBASSY JAKARTA 3897  
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TREASURY FOR OASIA/LMOGHTADER  
TREASURY PLEASE PASS TO OCC/AMCMAHON  
TREASURY ALSO PASS TO FEDERAL RESERVE/BOARD OF  
GOVERNORS, AND SAN FRANCISCO FRB/TERESA CURRAN

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SUBJECT: Taipei Economic Brief for July

11. This cable summarizes selected recent economic events in Taiwan in July 2006:

- Economic Conference offers 516 recommendations;
- Economy expected to slow in H2;
- Taiwan to streamline insurance policy review;
- Restriction on foreign professionals relaxed;
- TSMC vaults to 4th largest semiconductor firm;
- South Korea may surpass Taiwan in IT production;
- MOF completes investigation on PRC towel dumping;
- First Taiwan hospital in Mainland China;
- Taiwan firms are PRC's major FX earners.

SEDC Ended with 516 Recommendations

12. Over 100 economic, financial, business, and political representatives attended the Sustainable Economic Development Conference (SEDC) organized by the Executive Yuan (EY) on July 27 and 28. The meeting ended with 516 recommendations including a consensus on greenhouse gas reduction, the need for legislation of an energy tax, agreement to promote a national pension system, and endorsement of a stock market international board. Premier Su Tseng-chang promised that the EY will work out concrete

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implementation plans for these recommendations within one month. The opposition People First Party and Kuomintang (KMT) Party boycotted the meeting. The Taiwan Solidarity Union (TSU) Party withdrew from the conference after relaxation of the 40% of capital limit on investment in Mainland China was added as a

recommendation.

## Taiwan's Economy Doing Well in H1 but Slows in H2

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13. Exports boosted Taiwan's economy in the first half (H1) of 2006, while sluggish domestic demand was a negative factor. Higher interest rates in the United States have not dampened demand for products supplied by Taiwan firms. Export orders received by Taiwan grew 15% in Q2 of 2005 and nearly 22% in Q2 of 2006. Export growth accelerated from 5.8% to 14%. However, higher petroleum costs and domestic factors dampened private consumption to barely 2% in H1. Worse, private investment in H1 of 2006 declined 0.5% from a year ago.

14. Three major think tanks (Taiwan Institute of Economic Research (TIER), Chunghua Institution for Economic Research (CIER), and Academia Sinica) all predict Taiwan's economy will slow in H2 of 2006 to achieve around 4% growth for the year. Higher interest rates, higher petroleum prices, and an increased tension in the Middle East will weaken foreign demand and reduce Taiwan's export growth to a single digit rate in H2 of this year. Sluggish domestic demand is expected to continue in H2 as consumer confidence has been hurt by attempts to recall President Chen Shui-bian in June, scandals surrounding Taiwan's First Family, and increased tension in the Middle East. TIER and Academia Sinica predicted quarterly economic growth will decline from 4.9% in Q1 to 3.1% in Q4.

## Taiwan to Streamline Insurance Policy Review

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15. On July 11, Taiwan's Financial Supervisory Commission Insurance Bureau (IB) announced it will streamline insurance policy reviews beginning September 1 in response to recommendations from AmCham and local insurance companies. Insurance firms will not be required to

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obtain prior permission for most new insurance products. These measures will reduce the number of insurance policies requiring prior permission by 75% and cut the review time by more than half. In addition, the IB will provide six months of "innovation protection" that requires imitations of another company's new types of insurance products to seek prior IB permission. These changes should increase the efficiency and profitability of insurance companies, but require companies to exercise strict internal controls.

## Relaxed Restrictions on Foreign Professionals

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16. On July 26, the Financial Supervisory Commission announced it will allow certified public accountant (CPA) offices to hire foreign students as paid short-term interns. The Ministry of Justice is revising rules to allow law firms to set up similar programs which may be adopted in August. The Council for Economic Planning and Development is also coordinating with the Ministry of the Interior and the Public Construction Commission to permit foreign students as paid short-term interns in architecture and engineering firms. In May, Taiwan began to allow banks, insurance companies, securities firms, and large enterprises to set up intern programs for foreign students.

## TSMC Vaults to 4th Largest Semiconductor Firm

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17. Taiwan Semiconductor Manufacturing Company (TSMC) was the world's fourth largest semiconductor firm in the first half of 2006 by total revenue according to new rankings released by IC Insights Inc., a market research firm. TSMC rose from the eighth position in 2005. It now trails only Intel, Samsung, and Texas Instruments. TSMC is the world's largest contract chip manufacturer. It

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pioneered the "foundry-fabless" model where "foundries" manufacture

chips under contract for "fabless" integrated circuit design houses. Qualcomm's entry into the top 15 gave further evidence of the success of the foundry-fabless model.

#### South Korea's IT Industry to Surpass Taiwan's?

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¶18. The Market Intelligence Center (MIC) of the Institute for Information Industry (III) recently predicted that in 2010, South Korea may replace Taiwan as the third largest supplier of information and telecommunications (IT) products in the world, after the United States and Japan. MIC estimates the production value of South Korea's IT industry in 2010 will total USD 294.7 billion, higher than Taiwan's USD 283.1 billion. Chairman Chen Ching-wen of Topology Research Institute, who used to be MIC Director, indicated that there are many Taiwan IT firms too small to be competitive. According to Chen, Taiwan authorities have spread resources into too many different industries which can not all compete in international markets. Both Chen and President Lee Yuan-tseh of the Academia Sinica have suggested Taiwan authorities concentrate efforts and resources on a few projects with the greatest potential.

#### MOF Proposes Anti-dumping Taxes on PRC-made Towels

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¶19. On July 24, based on its investigation in China and responses to questionnaires by China-based towel manufacturers, Taiwan's Ministry of Finance (MOF) found that PRC-made towels have been dumped in Taiwan at below market prices. The MOF has come up with dumping

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margins for individual towel manufacturers in China, i.e., 88.5% for Shanming Enterprise, 86.6% for Twin-Lantern Home Textile, and 204.1% for all other towel exporters to Taiwan. The MOF will submit its investigation report and recommendations to the Ministry of Economic Affairs (MOEA) on August 3. The MOEA is required by Taiwan laws to make a final determination whether the PRC's dumping has injured Taiwan's towel industry within 40 days after it received the MOF's investigation report.

#### The First Taiwan-built Hospital in China

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¶10. Taiwan investors have started investing in medical institutions in China. The first hospital built by a Taiwan company recently began operation. The success of the project lay in its agreement to a joint venture with local interests that effectively removed opposition from local medical health institutions. To win confidence, the Taiwan company obtained insurance from the province and city. Germany's Siemens helped plan the medical instrument system of the hospital. Since Beijing announced policies to encourage Taiwan investment in China early this year, Taiwan's medical industry has aggressively explored business opportunities in Mainland China. Taiwan company Lien Shin is building a 600-bed hospital in Shanghai which is scheduled to start operation in 2007. Taiwan company Chang Keng is constructing a 2000-bed hospital in Xiamen which will also go into operation next year.

#### Taiwan Firm Top Foreign Exchange Earner in China

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¶11. The PRC's Ministry of Commerce has ranked Hon Fu Jin Precision, a subsidiary Taiwan's Hon Hai Precision, as China's largest foreign exchange earner in 2005. Hon Fu Jin reported USD 14.47 billion of export sales, surpassing such multinationals as Motorola, Nokia, and Samsung. In fact, four of the PRC's top 10 foreign trade companies in 2005 were from Taiwan. In terms of two-way trade (exports plus imports), the PRC's state-owned China Petroleum and Chemical Corporation ranked top with USD 34.3 billion. Hon Fu Jin ranked second with USD 27.17 billion, followed by Taiwan's Quanta (Shanghai) in third place with USD 16.77 billion and Taiwan's Asustek Computer (Suzhou) in sixth place. The number of Taiwan-invested enterprises in China has already reached 70,000. Among them, 37 infotech companies were listed among China's top 200 exporters in 2005, with export sales equal to 9.4% of China's total exports.

